

4. Study the extract below and answer the questions that follow.

Mining deals with multinationals

- ❶ Mineral-rich countries in Africa enjoyed a mining boom between 2002 and 2007 as metal and oil prices nearly tripled. **Multinational corporations (MNCs)** competed furiously for new mines to meet growing world demand. As a result, a number of African nations found themselves in a much stronger bargaining position with foreign investors, who previously were able to demand (and get) huge tax benefits before they would invest. However, since then, amidst a global economic recession, world metal and oil prices have fallen substantially, raising concerns that investors will once again stay away.
- ❷ Copper, which accounts for 80% of Zambia's export earnings, is a key component of the United States (US) electronics and building industry. It has seen prices fall from US\$9000 to US\$3000 per tonne as a result of the economic downturn. "This is going to affect our economy badly. Mining companies have already started cutting down on further investment programmes and they are reducing their workforce, which is not good for our economy," said a Zambian trade official.
- ❸ Though richly endowed with mineral and oil deposits, Africa has generally drawn little benefit from that wealth. Mining and oil profits have often gone abroad or been wasted, leaving many people in poverty. Also, the environment has been damaged by the effects of mining, such as pollution. The emergence of more democratic governments, along with action by local communities, has led to efforts to make better use of Africa's natural resources for economic development.
- ❹ Most mining contracts in Africa were negotiated in the 1980s and 1990s when low world prices and high political risks meant that African countries had to attract investors by incentives such as tax exemptions. Consequently, many countries earned very little from such contracts. African governments are now trying to ensure that mining contracts and regulations address environmental protection, provide adequate compensation to affected communities and regenerate land after mining operations have ended.

[Source: adapted from *Business Daily Africa*, 24 April 2009 and *Mail and Guardian online*, 14 December 2008]

(This question continues on the following page)

(Question 4 continued)

- (a) (i) State **two** reasons why a multinational corporation (MNC) may wish to invest in an economically less developed country (LDC). [2 marks]
 - (ii) Define the term *multinational corporations (MNCs)* indicated in bold in the text (*paragraph 1*). [2 marks]
 - (b) With the aid of a diagram, explain the likely impact on Zambia's economic growth of the fall in copper prices from US\$9000 to US\$3000 per tonne (*paragraph 2*). [4 marks]
 - (c) With the aid of a diagram, explain how mining in Africa can create externalities of production. [4 marks]
 - (d) Using information from the text/data and your knowledge of economics, discuss the contribution made by multinational corporations (MNCs) to the economic development of mineral-rich countries (*paragraph 1*). [8 marks]
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